



INVESTMENT- LINKED POLICY (ILP) AS A PROTECTION OR RETIREMENT PLANNING SOLUTION?

by Nantha Kumar S/O Abiman

A whole life Investment-linked policy (ILP) is a best of both worlds solution protection and retirement planning wise if used correctly and strategically, though ILP unit values are non-guaranteed, one can get a higher variable sum assured as protection without having to break the bank.

However as mortality charges increase with age, it may not be in the best interest of the insured to keep an ILP for a long term as these charges could eat into the unit value of the policy, if any.

This is where the ILP can play a dual role as a protection and retirement planning tool. The ability to choose your own funds, fund switch, vary the sum assured, cashing out of unit value allows one to be in control and reap maximum benefits as compared to a traditional plan which invests in the life fund and where the insurer decides asset allocation and how the funds are to be invested.



The flexibility of allowing withdrawals of unit value without paying back or without Annual Premium Loan and interest being charged allows one to decide when to enter and exit the market by the selling of units and the purchasing of units via single premium investments or regular premium modes.

Take an example of an insured who is 40 years old, he or she can exit the market in 15 years time (i.e. at age 55) by doing staggered withdrawals by the selling of units and maintain coverage as well as most ILPs allocate up to 105% of the premiums to the chosen funds, and on the assumption the life assured ILP unit values can sustain the mortality costs of the policy.

The age of 55 is also where the minimum sum has to be set aside and whereby most Singaporeans would have their retirement accounts opened in the CPF, which is an onset to the CPF LIFE Income that they will be getting from age 65 onwards. the potential surrender value from the ILP can work in tandem with the excess CPF funds that one may receive, if any.

The funds above the Retirement Minimum Sum can help one ride the storm while waiting for the CPF LIFE Income in 10 years time.

This potential payout from both the ILP and excess CPF funds can form a significant part of one's retirement income as retirement is supposed to be enjoyed and not endured!

About the Author



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